



WINSTON & STRAWN

DOCKET FILE COPY ORIGINAL

94-48

CHICAGO OFFICE
35 WEST WACKER DRIVE
CHICAGO, ILLINOIS 60601-9703
(312) 558-5600

1400 L STREET, N.W.
WASHINGTON, DC 20005-3502

NEW YORK OFFICE
175 WATER STREET
NEW YORK, NY 10038-4981
(212) 269-2500

(202) 371-5700

GENEVA OFFICE
43 RUE DU RHONE
1204 GENEVA
SWITZERLAND
(4122) 781-0506

FACSIMILE (202) 371-5950

SAUDI ARABIA OFFICE
SULAYMANIYAH CENTER
P.O. BOX 22166
RIYADH 11495
SAUDI ARABIA
(9661) 462-8866

DATE: August 12, 1994

PLEASE DELIVER THE FOLLOWING PAGE(S)

TO: Nina Sandman
FIRM: Federal Communications Commission
FAX#: 94161139

FROM: Blaise A. Scinto
PHONE: 371-5714

RECEIVED

DEC - 2 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

TOTAL # OF PAGES (INCLUDING COVER SHEET): 4

SUBJECT: Information on Private Cable Industry
COMMENTS:

Ms. Sandman:

The attached letter will also be delivered to your office by courier this afternoon, but I thought a fax might reach you more quickly.

Sincerely,
Blaise Scinto

The information contained in this facsimile message is attorney privileged and confidential information intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited.

If you have received this communication in error, please immediately notify us by telephone, and return the original message to us at the above address via the U.S. Postal Service. Thank you.

If you do not receive all the pages, please call our facsimile operator at (202) 371-5881 as soon as possible. Thank you.

Direct Dial Fax Number: (202) 371-5950

No. of Copies rec'd 1
List A B C D E

DOCKET FILE COPY ORIGINAL

WINSTON & STRAWN

FREDERICK H. WINSTON (1853-1888)
SILAS H. STRAWN (1891-1949)

1400 L STREET, N.W.
WASHINGTON, D.C. 20005-3502

(202) 371-5700

FACSIMILE (202) 371-5980

WRITER'S DIRECT DIAL NUMBER

(202) 371-5763

RECEIVED

DEC - 2 1994

August 12, 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

CHICAGO OFFICE
35 WEST WACKER DRIVE
CHICAGO, ILLINOIS 60601
(312) 584-6000

NEW YORK OFFICE
175 WATER STREET
NEW YORK, NY 10038-4981
(212) 512-2000

GENEVA, SWITZERLAND OFFICE
43 RUE DU RHONE
1204 GENEVA, SWITZERLAND
(4122) 7810505

RIYADH, SAUDI ARABIA OFFICE
THE INTERNATIONAL LAW FIRM
BULAFMAN/NAH CENTER
TAHLIA STREET
RIYADH 11466, SAUDI ARABIA
(9661) 4888888

Ms. Nina M. Sandman
Federal Communications Commission
Cable Services Bureau
2033 M Street, N.W.
Washington, D.C. 20554

Re: Information on the Private Cable Industry

Dear Nina:

This letter is written in response to your request for information concerning the private cable industry. In compiling this information, we have spoken to industry analysts as well as individual private cable operators and program distributors. This law firm has not undertaken any independent verification of the facts or conclusions stated herein.

As of October 1993, there were approximately 3,051,350 subscribers to private cable service in multiple dwelling units (including mobilehome parks and planned unit developments), hotels and motels, hospitals, and prisons. Private Cable Investor, (Paul Kagan Associates, Inc., Carmel, Calif.), Oct. 21, 1993, at 2. No comprehensive listing of private cable operators or systems exists. However, industry sources estimate that there are probably between 3,000 and 4,000 private cable systems nationwide, including those that serve MDUs, hotel/motel, hospital, and prison facilities.

In the past few years, most of the major private cable transactions have involved franchised cable operators purchasing SMATV systems. In 1991, 36% of the private cable systems sold were acquired by franchised cable operators; in 1992, 53% of private cable systems sold were acquired by franchised cable operators. Private Cable Investor, Mar. 31, 1993, at 1. Currently, however, buyers of private cable systems are more likely to be medium to large private cable companies growing through acquisition. Private Cable Investor, Feb. 28, 1994, at 5.

Generally, private cable subscribers pay from 10% to 30% less for basic cable service than franchised cable subscribers in the same area, although this differential varies from area to area and

WINSTON & STRAWN

Nina Sandman
August 12, 1994
Page 2

from system to system. In addition, private cable subscribers generally pay lower prices than franchised cable subscribers for premium services, and this price difference may range from \$1.00 per channel to a 60% discount. Many private cable operators specifically set their service, equipment and installation charges at a designated level -- for example, 10% -- below the local franchised operator's rates. Some private operators contractually guarantee that their prices will remain lower than the franchised operator's prices throughout the duration of their contracts.

What follow are some of the "success" stories from the private cable industry:

MSE Cable Systems, Inc. of Rochester Hills, Michigan provides private cable services to MDUs and mobilehome parks. MSE started in 1980 with 4 systems passing approximately 2,000 homes and has grown to include 30 systems passing approximately 16,000 homes, all located in the Southeast Michigan area. MSE began providing service to many of its mobilehome park subscribers before area franchised cable operators offered service to these locations; MSE developed its business by filling the need for cable service in these locations. MSE has achieved its success in the private cable field by recognizing what its subscribers want, and by gearing its programming packages and customer service practices to suit the demographics of the communities that it serves.

* * * * *

Cable Plus, headquartered in Bellevue, Washington, has been in the private cable business for five years, and currently operates private cable systems in 9 states, mostly in the West. It is owned and managed by some very senior leaders in the telecommunications area who see private cable as a profitable niche. Cable Plus has been financially and operationally successful, growing from its inception with about 8 systems passing approximately 2,500 homes to about 200 systems passing approximately 50,000 homes.

* * * * *

OpTel, Inc. owns and operates private cable systems serving primarily individual subscribers in multiple dwelling units ("MDUs"), as well as institutional customers. OpTel began providing service in November 1993 to 300 subscribers at one MDU, and was immediately sued by the franchised cable operator in the locality, a large MSO seeking to discourage competition. OpTel has survived such adversity, however, and currently provides video

WINSTON & STRAWN

Nina Sandman
August 12, 1994
Page 3

programming services under the brand-name "TVMAX" to more than 330 MDUs consisting of more than 105,000 households; the company will soon begin providing service to an additional 10,000 households. In all, OpTel serves more than 41,000 subscribers in the metropolitan areas of Los Angeles, San Diego, Houston, Phoenix and Dallas-Ft. Worth. OpTel primarily delivers programming via point-to-point 18 GHz microwave signals; however, it also uses a variety of other delivery technologies, including coaxial and fiber optic cable in its Houston system. OpTel currently provides approximately 25% of its customers with 54 channels or more of programming and it expects to upgrade the technology in most of its remaining systems to provide similar channel capacity and program offerings to its other customers.

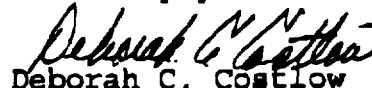
* * * * *

MaxTel Cablevision serves nearly 85,000 apartment units and 42,000 subscribers in approximately 280 properties located in 25 states. MaxTel began operations in 1984 as a subsidiary of a real estate development company and was acquired in 1987 by the current owners to focus on integrating video, voice and data technologies. Market success has been achieved due to continued demand for competitive cable providers, despite anti-competitive practices of programmers, legal challenges by franchised cable operators, and the lack of adequate financing sources supporting emerging technologies.

* * * * *

I hope you find this information helpful.

Sincerely yours,


Deborah C. Costlow